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# EFFECT OF EXTERNAL AUDITORS SWITCHING ON CORPORATE TAX SAVINGS OF LISTED BANKS IN NIGERIA

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## ABSTRACT

*The study investigates the influence of auditor's switching on corporate tax savings in Nigeria drawing samples from listed banks on the floor of the Nigerian Exchange Group market. While corporate tax savings proxied by non-debt tax shield is the dependent variables, the independent variables adopted for this study includes upward auditor's switching, downward auditor's switching, and lateral auditor's switching. Furthermore, in line with related extant literature, the study employs the variable of firm size to control our model. Data set employed in this study spans through the periods between 2011 and 2020. The study provides evidence leading to the conclusion that when banks switch auditors from non-big4 to big4 auditing firms, they tend to insignificantly pay more in tax. The study also concludes that when banks switch auditors from big4 to non-big4 auditing firms, they tend to significantly save tax liability. The empirical results also shows that when banks switch auditors from non-big4 to non-big4 or from big4 to big4 auditing firms, they tend to insignificantly save tax liability. The results provide important implications to different company stakeholders. Particular, the study implies that a downward auditor switch by banks in Nigeria will lead to strategies that will save tax liabilities hence increasing shareholders wealth.*

**KEYWORDS:** Non-Debt Tax Shield, Upward Auditors Switching, Downward Auditors Switching, Lateral Auditors Switching, Panel Regression

## 1.0 Introduction

Corporate tax reduction is viewed as a constructive action that has the potential to boost the firm's value in the future. Hence, corporate tax savings strategies, in particular, can impact on the firm's value, as investors view these strategies as risky. Corporate tax reduction efforts may increase firm risk, incur reputational costs, and result in adverse capital market repercussions such as decreased firm value and increased cost of capital (Hutchens & Rego, 2012). Corporate tax avoidance actions are simply intended to transfer wealth from the state to the shareholders. This would occur each time the corporation successfully avoids paying some amount of taxes that would otherwise be owed. Shareholders would then be enthusiastic about the prospect of urging their representatives to engage in such behavior.

The collapse of Enron and the subsequent demise of audit firm Arthur Andersen have resulted in a high number of audit firm changes. As a result of the audit firm's demise, Arthur Andersen's clients were obliged to switch auditors by the end of August 2002. Apart from these mandatory changes, the collapse of Arthur Andersen shifted auditors' perspective on risk assessment of their customers (Landsman, Nelson and Rountree, 2009). The client firm may change audit firms in three ways: (1) by remaining with the same Big4 audit firm, (2) by switching to a Big4 audit firm from another Big4 audit firm or a lower-tier audit firm (referred to as lateral and upward switches), or (3) by switching from a Big4 audit firm to a lower-tier audit firm (referred to as downward switches) (Landsman et al., 2009). There are numerous distinct factors for why client firms undertake an upward, downward, or lateral transition in their audit company.

Recent research (Sankaraguruswamy and Whisenant, 2004; Ettredge et al., 2007) argue that clients transfer because they want to save money on audit fees or reduce operational cost such as corporate tax liability and/or receive more personalized services. From this viewpoint, a downward shift may be visible if the customer generates a financial benefit as a result of, for example, a cheaper audit charge combined with more tailored services. Shu (2000) explain, however, that the decision to transfer audit firms may be motivated by changes in the economics of the connection. More precisely, misalignment can be caused by differences in the (financial) characteristics of either the client firm or the audit firm. Client firms are projected to migrate downward from a Big Four audit firm to a non-Big Four audit firm as a result of the misalignment. According to Landsman et al. (2009), both misaligned and dangerous clients are more likely to switch downward.

A review of several empirical studies from continents in the world showed different results of the effect of external auditors switching and corporate tax savings. Furthermore, the review also revealed the following research gap. (1) Most past studies were done in Asia especially in Pakistan, Indonesia and Jordan (Shubita, 2021; Wijaya, 2020; Phan, Lai, Le, Tran, & Tran, 2020; Sattar, Javeed, & Latief, 2020; and Sayyar, Basiruddin, Abdul Rasid, & Elhabib, 2015) while in Africa the few studies were in Ghana, Kenya, Egypt and Nigeria but all the studies in Africa and Nigeria in particular ignore the *external auditor switching aspect of the firm as they concentrated on other audit quality measures* (Ugwu, Aikpitanyi, & Idemudia, 2020; Chinedu, Nwoha, & Udeh, 2020; and Ogbodo, 2017; (2) The study also observes that most of the studies (Monametsi & Agasha, 2020; Ado, Rashid, Mustapha, & Ademola, 2020; Abba & Sadah, 2020; Udeh, Chinedu, & Okwo, 2020; U-ungwa, & Ojonimi, 2017; Ugwu, Aikpitanyi, & Idemudia, 2020; Chinedu, Nwoha, & Udeh, 2020; Iliemena & Okolocha (2019); Ogbodo,

2017; Chinedu, Nwoha, & Udeh, 2020; and Wijaya, 2020) were done using OLS estimation method which is not capable of capturing heterogeneity effects of the sampled firms; (3) Furthermore, none of the studies reviewed employed data up to 2020, hence the study identifies a period gap; (4) These past studies also completely ignore auditor's switching as it relates with corporate tax savings but focused on other audit quality measures as they relate to firm performance and firm value

The study therefore seeks to address these research problems by first ensuring that variables like external auditor's switching is studied independently from other audit quality measure in line with related extant literature. Second, the study employs a panel regression technique of within effect estimator that can capture the heterogeneity effect present in the firm. Third, the study ensures that bank observation of over 10 years is used unlike previous studies of Ugwu, Aikpitanyi, & Idemudia, 2020; Chinedu, Nwoha, & Udeh, 2020; Ogbodo, 2017; and Chinedu, Nwoha, & Udeh, 2020 that use short periods and small firm observations. More than this, the study to the best of the researchers' knowledge will be the first in the context of Nigeria to use most recent data including the prevalent covid-19 period of 2019 and 2020 to investigate the relationship between external auditor switching and corporate tax savings in Nigeria from 2011 to 2020 employing non-debt tax shield as proxies for corporate tax savings.

## **2.0 Conceptual Literature**

### **Corporate Tax Savings**

In the tax literature, the tax saving, tax planning, tax optimization and tax aggressiveness are often used interchangeably, Christine (2014) and all refer broadly to attempts by companies to reduce their tax liabilities. According to Suandy (2011), tax saving is an effort made to save and minimize tax payments legally without violating applicable rules. Hanlon and Heitzman (2010) defined corporate tax saving as a continuum of tax planning strategies with perfectly legal and low-risk strategies at one end and other strategies that entail tax evasion or tax sheltering at the other end. Given the broad range of strategies available, managers of firms may also have to decide on whether they opt for more aggressive or less aggressive forms of tax savings. Aside the direct costs of engaging in such activities, managers of firm typically have to ensure that these actions are hidden from tax authorities. There are potential costs related to strategies to minimize taxes such as implementation and transaction costs, possible penalties imposed by the tax authorities and reputation risks.

### **Auditors Switching**

Auditor switching has been a phenomenon of concern both to members of the auditing profession and to the public generally, including third parties that rely upon audit services rendered by professional practitioners. Auditor switching is an event of changing public accounting firms. It is also a change in the audit firm specified in the client firm's annual report when not necessary. Auditor switching was defined by Louwers, Ramsay, Sinason, & Strawser, (2007) as the resignation and dismissal of audit firm from carrying audit assignment from the client. This auditor switching could be the movement of auditor from one firm to another client firm possibly by way of resignation or dismissal by the recommendation of the audit committees anchoring their actions in the 1999 Constitution provisions as in Nigeria contexts. Literatures have shown that auditor switching is mainly due to lack of audit independence, and this is very keen in the determination of the audit

engagement remuneration as well. Thus, mental attitude and physical appearance of the audit firm personnel can be uninfluenced by others in judgment and decision. Auditor switching might be favorable or unfavorable. In some cases, the auditor loose better clients and the clients end in incurring more costs based on the auditor switching. In the views of Muhammad (2011), firm auditors who are considered to have low performance by his supervisor witness a high level of audit firm turnover as a result of auditor switching behavior. Therefore, auditors have to improve on their skills so as to increase the probability to rely more on the auditor report and audited financial statements which are more relevant, unbiased, and accurate for the decision makers.

### **Auditor Switching and Corporate Tax Savings**

Although there are several types of tax providers (in-house, third-party, auditor provided), audit firm tax providers may be able to develop more effective tax strategies due to their extensive knowledge of their client's business, internal processes, systems, and industry, as well as their access to extensive internal financial information. Indeed, anecdotal evidence suggests that audit firms use "inside" information about their clients to deliver APTS (Beale 2004; PCAOB 2005). According to Cripe and McAllister (2009), CFOs hire their auditors as tax advisors because they have extensive understanding of the client's tax system and are able to help the customer save money and improve efficiency. Additionally, audit companies as tax providers can draw on a far greater range of tax-specific knowledge than other providers, such as major law firms, because they provide APTS to a very high number of clients (Maydew and Shackelford 2007). To remain competitive in this market, audit companies invest consistently in cutting-edge accounting, audit, and tax technologies. When combined with a substantial client base, an audit firm equipped with cutting-edge tax technology may be able to position itself as a tax services specialist. Maydew and Shackelford (2007) present anecdotal evidence that "it would take years to establish the firm-specific tax and business expertise that already exists among the tax experts at the accounting firm that has audited the firm for decades." From the foregoing the study states the hypotheses as;

- H0<sub>1</sub>: Upward auditor's switching has no significant effect on corporate tax savings of listed banks in Nigeria
- H0<sub>2</sub>: Downward auditor's switching has no significant effect on corporate tax savings of listed banks in Nigeria
- H0<sub>3</sub>: Lateral auditor's switching has no significant effect on corporate tax savings of listed banks in Nigeria

### **Theoretical Framework**

#### **Agency Theory**

The proponent of the agency theory, Desai and Dharmapala (2006) and Desai, Dyck and Zingales (2007) considered the interaction of tax planning activities and the agency problems inherent in public companies. The theory argued that obfuscator tax planning activities could create a shield for managerial opportunism thus the diversion of rents. They posited that straightforward diversion and subtle forms of earnings manipulation could be facilitated when managers undertook tax planning activities. They believed that tax planning had the direct effect of increasing corporate profitability and firm value only for firms with strong

governance institutions. Where there are weak governance institutions, increased opportunities for managerial rent diversion dominate these effects. Tax avoidance incorporates more dimensions of the agency tension between managers and investors. According to the agency perspective of tax, the problem that needs to be solved by investors is simply managerial shirking. Avoidance also constitutes another form of the agency problem, managerial opportunism, or resource diversion (Desai & Dharmapala, 2009). Desai and Dharmapala (2006) argued that complex tax avoidance transactions could provide management with the tools, masks, and justifications for opportunistic managerial behaviours such as earnings manipulations, related party transactions and other resource-diverting activities.

### **Empirical Framework**

Maydew and Shackelford (2019) examines changes in the role that auditors play in corporate tax planning following recent events, including the well-known accounting scandals, passage of the Sarbanes-Oxley Act, and regulatory actions by the SEC and PCAOB. They examine the effects of these events on the market for tax planning, in particular the longstanding link between audit and tax services. They estimate that the ratio of tax fees to audit fees paid to the auditors of firms in the S&P 500 decline from approximately one in 2001 to one-fourth in 2004. At the same time, they find no evidence of a general decline in spending for tax services. In sum, the evidence indicates a decoupling of the longstanding link between audit and tax services, such that firms are shifting their purchase of tax services away from their auditor and towards other providers.

Riguen, Salhi, and Jarboui (2021) investigate the relation between audit characteristics and corporate tax avoidance and how board gender diversity (BGDs) moderates this relationship. Using a sample of 270 UK firms over the 2005-2017 period, they find that audit characteristics influence the corporate tax avoidance. Two of them (specialization and audit fees) had a negative effect; the other one (audit opinion, audit rotation) Have a positive effect on tax avoidance. They also find that BGDs moderates the effect of audit characteristics on corporate tax avoidance, except for audit opinion. The impact of the BGDs' level increases as the presence of woman in the board escalated from 40 to 60 %, but then weakened at 10 % level.

Henrik and Dennis (2018) investigates the association between private company auditing and intertemporal income shifting. Using a large reduction in the Finnish corporate tax rate as a strong incentive for income shifting and financial statement data coupled with proprietary information from the tax authorities, they analyze accruals and cost stickiness of small private companies. Their results reveal significant differences in accrual income shifting between audited and unaudited companies, but only among companies that on average could anticipate the tax reduction the most. Further, they find auditors to restrict sticky selling, general, and administrative cost behaviour that they hypothesize is associated with illegal actions.

### **3.0 Methodology**

The study employs the firm-level approach based on an expo-facto and non-experimental research design. The study is longitudinal covering a period of ten (10) years. That is, from 2011 to 2020 employing listed banks on the floor of the Nigerian Exchange Group (NGX).

The sampling technique employed is purposive since firms were included in the sample on certain selection criteria. These criteria were based on the view that the banks are listed on the Nigerian Exchange Group (NGX) market from 2011-2020; there were access to their annual financial reports within the period and they were not banks operating subsidiaries in Nigeria that are not listed in the Nigerian Exchange Group (NGX). Newly listed banks and delisted banks were excluded from the study. The final firm year observation consists of 120 observations that was arrived at based on the availability of data for ten years for all the research variables.

To test the hypotheses of this study, the study conducted some pre-regression analysis which included descriptive statistics and correlation analyses. The study employed panel regression analysis to examine the influence of auditors switching on corporate tax savings among listed banks in Nigeria. The rationale for its usage is based on the following justifications: the data that will be collected may have time and cross-sectional attributes as well as across the sampled firms (cross-section); panel data regression provides better results since it uses large observation and reduces the problem of degree of freedom (Muhammad, 2012); it avoids the problem of multicollinearity and help to capture the individual cross-sectional (or firm-specific) effects that the various pools may exhibit with respect to the dependent variable in the model. Hausman and Taylor (1981) also recommended panel data estimation method because it enables a cross-sectional time series analysis which usually makes provision for a broader set of data points, but also because of its ability to control heterogeneity and endogeneity issues. Hence panel data estimation allows for the control of individual-specific effects usually unobservable which may be correlated with other explanatory variables included in the specification of the relationship between dependent and explanatory variables.

### Model Specification

Following prior related studies of Maydew and Shackelford (2019) who examined the association between the independent and dependent variables of Global Brand listed firms in Nigeria, the study specify the functional form of our model as:

$$NTAX_{it} = \beta_0 + \beta_1 UASW_{it} + \beta_2 DASW_{it} + \beta_3 LASW_{it} + \beta_4 FSIZ_{it} + \mu_{it}$$

#### Where:

AUDF	=	Non-Debt Tax Shield
AUCM	=	Upward auditor's switch
AUGD	=	Downward auditor's switch
AUCS	=	Lateral auditor's switch
FSIZ	=	Firm size
$\beta_0$	=	Constant
$\beta_1$ - $\beta_3$	=	Slope Coefficient
$\mu$	=	Stochastic disturbance
$i$	=	$i^{th}$ bank
$t$	=	time-period

## 4.0 Empirical Results and Discussion

The study investigates the influence of auditor's switching on corporate tax savings in Nigeria drawing samples from listed banks on the floor of the Nigerian Exchange Group market. While corporate tax savings proxied by non-debt tax shield is the dependent variables, the independent variables adopted for this study includes upward auditor's switching, downward auditor's switching, and lateral auditor's switching. Furthermore, in line with related extant literature, the study employs the variable of firm size to control our model. Data set employ in this study spans through the periods between 2011 and 2020. Table 4.1 below describes the data in terms of the companies which they belong. Overall, the descriptive statistics provides some insight into the nature of the selected Nigerian listed non-finance companies that were employed in this study.

### Descriptive Analysis

In this section, the study examines the descriptive statistics for both the explanatory and dependent variables of interest. Each variable is examined based on the mean, standard deviation, maximum and minimum. Table 1 below displays the descriptive statistics for the study.

**Table 1: Descriptive Statistics**

VARIABLES	MEAN	SD	MIN	MAX	NO OBS
NTAX	0.44	0.17	0.21	1.2	120
UASW	0.01	0.09	0	1	120
DASW	0.01	0.09	0	1	120
LASW	0.14	0.35	0	1	120
FSIZ	9.18	0.40	8.19	9.94	120

Source: Author (2021)

The table above shows the summary of the descriptive statistics of the study. From the table it is observed that non-debt tax shield (NTAX) had a mean of 0.44 with a standard deviation of 0.17. In the case of the control variables, the study finds that upward auditor's switching (UASW) had a mean of 0.01 indicating that about 1% of the banks in the sample switch from a non-big4 auditing firm to a big4 auditing firm. In the same vein, the study finds that about 1% of the banks in our sample switch from big4 auditing firms to non-big4 auditing firm as reveal by the mean of the independent variable of downward auditor's switching (DASW). The study also finds that the mean of lateral auditors switching (LASW) was 0.14 indicating that about 14% of the banks in the sample switch auditors from big4 auditing firm to another big4 auditing firm or from a non-big4 auditing firm to another non-big4 auditing firm. In the case of the control variable, the table shows that firm size had a mean of 9.18 and a standard deviation of 0.40.

### Correlation Analysis

In examining the association among the variables, the study employs the Pearson correlation coefficient (correlation matrix), and the results are presented in the table below.

**Table 2: Correlation analysis**

	NTAX	UASW	DASW	LASW	FSIZ
NTAX	1.00				
UASW	0.12	1.00			
DASW	0.15	-0.01	1.00		
LASW	0.04	-0.04	-0.04	1.00	
FSIZ	-0.54	-0.14	-0.15	0.07	1.00

Author's computation (2021)

In the case of the correlation between the variables of interest, the above results show that there exists a positive and weak association between upward auditor's switching and non-debt tax shield (0.12). There is a positive and weak association between downward auditor's switching and non-debt tax shield (0.15). There is a positive and weak association between lateral auditor's switching and non-debt tax shield (0.04). For the control variable, the study finds that firm size has a negative and high association with big4 audit firms (-0.54). To test the hypotheses a regression results will be needed since correlation test does not capture cause-effect relationship.

### Regression Results

Specifically, to examine the cause-effect relationships between the dependent variables and independent variables as well as to test the formulated hypotheses, the study presents multinomial panel logistic regression result in the table below

**Table 3: Regression Result**

	NTAX Model (Pooled OLS)	NTAX Model (FIXED Effect)	NTAX Model (RANDOM Effect)
C	2.59 {0.000} ***	3.57 {0.000} ***	2.85 {0.000} ***
UASW	-0.02 {0.906}	-0.09 {0.439}	-0.07 {0.578}
DASW	0.42 {0.002} **	0.34 {0.006} **	0.37 {0.002} **
LASW	0.03 {0.453}	0.02 {0.546}	0.02 {0.573}
FSIZ	-0.24 {0.000} ***	-0.34 {0.000} ***	-0.26 {0.000} ***
F-statistics/Wald Statistics	21.17 (0.00) ***	10.61 (0.00) ***	61.02 (0.00) ***
R- Squared	0.42	0.29	0.28
VIF Test	1.03		
Heteroscedasticity Test	18.75 (0.00) ***		
Hausman Test		1.33 (0.8567)	

Note: (1) bracket {} are p-values  
 (2) \*\*, \*\*\*, implies statistical significance at 5% and 1% levels respectively

In the table above, the study observes from the OLS pooled regression that the R-squared value of 0.42 shows that about 42% of the systematic variations in corporate tax savings proxied by non-debt tax shield in the pooled banks over the period of interest was jointly explained by the independent and control variables in both models respectively. The unexplained part of corporate tax savings can be attributed to exclusion of other independent variables that can impact on corporate tax savings but were captured in the error term. The F-statistic value of 21.17 and their associated P-value of 0.00 shows that the OLS regression of



both model on the overall is statistically significant at 1% level, this means that the regression models is valid and can be used for statistical inference. The table above also shows a mean VIF value of 1.03 which is within the benchmark value of 10, this indicates the absence of multicollinearity in both models, and this means no independent variable should be dropped from the models. Also, from the table above, it can be observed that the OLS results had heteroscedasticity problems since its probability value was significant at 1% [18.75 (0.0000)]. The presence of heteroscedasticity in the model clearly shows that our sampled banks are not homogeneous. This therefore means that a robust or panel regression approach will be needed to capture the impact of each firm heteroscedasticity on the results. In this study, the panel regression method using both fixed and random effect models was adopted.

The F-statistic and Wald-statistic value [10.61 (0.00) and 61.02 (0.00)] for fixed and random effect regression respectively shows that both models are valid for drawing inference since they are both statistically significant at 1%. In the case of the coefficient of determination (R-squared), it was observed that [29% and 28%] systematic variations in corporate tax savings proxied by non-debt tax savings was explained jointly by the independent and control variables in both models respectively. This therefore implies that less of the variation in corporate tax savings were explained when compared to the OLS pooled regression. In selecting from the two panel regression estimation results, the Hausman test was conducted, and the test is based on the null hypothesis that the random effect model is preferred to the fixed effect model. Specifically, a look at the p-value of the Hausman test (0.8567), implies that the study should accept the null hypothesis and reject the alternative hypothesis at above 5% or 1% level of significance. This implies that the study should adopt the random effect panel regression results in drawing the conclusion and recommendations. This also implies that the random effect results tend to be more appealing statistically when compared to the fixed effect.

## Discussion of Findings

Since, the study is an extension of existing studies, only few findings in literature are not in agreement with the current positions of this study. Specifically, the study finds that upward auditor's switching as an independent variable to corporate tax savings proxied by non-debt tax shield {-0.07 (0.578)} has an insignificant influence on corporate tax sheltering of listed banks in Nigeria. This therefore means the study should accept the null hypothesis  $\{H_0_1: \text{upward auditor's switching has no significant effect on corporate tax savings of listed banks in Nigeria}\}$ . Specifically, the results shows that when banks switch auditors from non-big4 to big4 auditing firms, they tend to insignificantly pay more in tax. This result agrees with prior empirical results which show that upward auditor's switching has no significant effect on corporate tax savings (Shubita, 2021; Wijaya, 2020; and Phan, Lai, Le, Tran, & Tran, 2020). However, the study fails to agree with the studies of Chinedu, Nwoha, & Udeh, 2020; Ogbodo, 2017; and Chinedu, Nwoha, & Udeh, 2020 who concluded that upward auditor's switching has a significant effect on corporate tax savings.

The study also finds evidence that downward auditor's switching as an independent variable to corporate tax savings proxied by non-debt tax shield {0.37 (0.002)} has a significant influence on corporate tax savings of listed banks in Nigeria. This therefore means the study should reject the null hypothesis  $\{H_0_2: \text{downward auditor's switching has no significant effect on corporate tax savings of listed banks in Nigeria}\}$ . Specifically, the results shows that when banks switch auditors from big4 to non-big4 auditing firms, they tend to significantly save tax liability. This result agrees with prior empirical results which show that downward

auditor's switching significantly increases corporate tax savings (Shubita, 2021; Wijaya, 2020; and Phan, Lai, Le, Tran, & Tran, 2020). However, the study fails to agree with the studies of Chinedu, Nwoha, & Udeh, 2020; Ogbodo, 2017; and Chinedu, Nwoha, & Udeh, 2020 who concluded that downward auditor's switching has no significant effect on corporate tax savings.

The results shows that lateral auditor's switching as an independent variable to corporate tax savings proxied by non-debt tax shield {0.02 (0.573) has an insignificant influence on corporate tax sheltering of listed banks in Nigeria. This therefore means the study should accept the null hypothesis {H<sub>0</sub>: lateral auditor's switching has no significant effect on corporate tax savings of listed banks in Nigeria}. Specifically, the results shows that when banks switch auditors from non-big4 to non-big4 or from big4 to big4 auditing firms, they tend to insignificantly save tax liability. This result agrees with prior empirical results which show that lateral auditor's switching has no significant effect on corporate tax savings (Shubita, 2021; Wijaya, 2020; and Phan, Lai, Le, Tran, & Tran, 2020). However, the study fails to agree with the studies of Chinedu, Nwoha, & Udeh, 2020; Ogbodo, 2017; and Chinedu, Nwoha, & Udeh, 2020 who concluded that lateral auditor's switching has a significant effect on corporate tax savings.

## **5.0 Conclusion and Recommendation**

Corporate tax avoidance actions are simply intended to transfer wealth from the state to the shareholders. This would occur each time the corporation successfully avoids paying some amount of taxes that would otherwise be owed. Shareholders would then be enthusiastic about the prospect of urging their representatives to engage in such behavior. To Save tax liability and increase shareholders wealth, firms sometimes switch their audit firm partner. There are numerous distinct factors for why client firms undertake an upward, downward, or lateral transition in their audit company. The client firm may change audit firms in three ways: (1) by remaining with the same Big4 audit firm, (2) by switching to a Big4 audit firm from another Big4 audit firm or a lower-tier audit firm (referred to as lateral and upward switches), or (3) by switching from a Big4 audit firm to a lower-tier audit firm (referred to as downward switches). The study provides evidence leading to the conclusion that when banks switch auditors from non-big4 to big4 auditing firms, they tend to insignificantly pay more in tax. The study also concludes that when banks switch auditors from big4 to non-big4 auditing firms, they tend to significantly save tax liability. the empirical results also shows that when banks switch auditors from non-big4 to non-big4 or from big4 to big4 auditing firms, they tend to insignificantly save tax liability. The results provides important implications to different company stakeholders. Particular, the study implies that a downward auditor switch by banks in Nigeria will lead to strategies that will save tax liabilities hence increasing shareholders wealth.

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